

# **Financial Statements and Independent Auditor's Report Armenian Caritas Benevolent NGO**

31 December 2020



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# Independent auditor's report

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To the board of trustees of Armenian Caritas Benevolent Non-Governmental Organization

## *Qualified Opinion*

We have audited the financial statements of Armenian Caritas Benevolent Non-Governmental Organization (the "Organization"), which comprise the statement of financial position as of 31 December 2020, and the statement of comprehensive income, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Organization as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## *Basis for Qualified Opinion*

- As described in note 10 to the financial statements, the Organization received grants from different donors. The accounting for mentioned grants is maintained in separate MS Excel worksheets. We could not reconcile these worksheets with the respective balances depicted in 1C accounting software. Therefore, we were unable to determine whether the classification of expenses between different donor organizations and own funds is appropriate in the financial statements and whether any adjustments were necessary in respect of those grants.
- As described in note 5 to these financial statements, the Organization provided non-interest bearing borrowings to individuals for the development of small businesses. The accounting for mentioned borrowings is maintained in separate MS Excel worksheets. We could not reconcile these worksheets with the respective balances depicted in 1C accounting software. Therefore, we were unable to determine whether the classification and balances of borrowings are appropriate in the financial statements and whether any adjustments were necessary in respect of those borrowings.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization’s financial reporting process.

### *Auditor’s Responsibilities for the Audit of the Financial Statements*

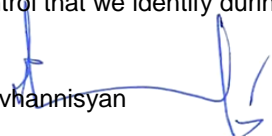
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.


As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

  
Armen Hovhannisyan  
Chief Executive Officer

  
Emil Vassilyan  
Engagement Partner

28 September 2021



# Armenian Caritas Benevolent NGO

## Members of the board of trustees as of 31 December 2020

Rafael Minassyan	President	Ordinary of Armenian Catholic Church in Armenia, Georgia and Eastern Europe
Zvart Najaryan	Member	-
Zhirayr Habibyan	Member	-
Vardges Yeghyayan	Member	-
Michel Davudyan	Member	-

# Statement of financial position

In thousand drams	Note	As of 31 December 2020	As of 31 December 2019
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment	4	1,282,807	1,430,782
		<u>1,282,807</u>	<u>1,430,782</u>
<i>Current assets</i>			
Borrowings provided	5	22,601	29,037
Advances and prepayments		6,776	6,776
Bank deposits	6	170,788	163,412
Cash and bank balances	7	493,904	143,770
		<u>694,069</u>	<u>342,995</u>
<b>Total assets</b>		<u>1,976,876</u>	<u>1,773,777</u>
<b>Liabilities, reserves and grants</b>			
<i>Non-current liabilities</i>			
Grants related to assets	8	1,282,807	1,430,782
		<u>1,282,807</u>	<u>1,430,782</u>
<i>Current liabilities</i>			
Accounts payable	9	4,502	3,854
		<u>4,502</u>	<u>3,854</u>
<i>Reserves and grants</i>			
Grants related to income	10	689,567	339,141
		<u>689,567</u>	<u>339,141</u>
<b>Total liabilities, reserves and grants</b>		<u>1,976,876</u>	<u>1,773,777</u>

The financial statements were approved on 28 September 2021 by:

Gagik Tarasyan  
Director



Vardan Muradyan  
Chief accountant




The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

# Statement of income and expenses

In thousand drams

	Note	Year ended 31 December 2020	Year ended 31 December 2019
<i>Income</i>			
Income from grants	11	1,805,237	1,732,151
Other income		300	400
		<u>1,805,537</u>	<u>1,732,551</u>
<i>Expenses</i>			
Program expenses	12	(1,618,550)	(1,542,057)
Administrative expenses	13	(159,396)	(184,164)
Other expenses		(27,591)	(3,234)
		<u>(1,805,537)</u>	<u>(1,729,455)</u>
Result before income tax		<u>-</u>	<u>3,096</u>
Income tax (expense)	14	-	(3,096)
Result for the year		<u>-</u>	<u>-</u>

The Statement of income and expenses is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.



# Statement of cash flows

In thousand drams

	Note	Year ended 31 December 2020	Year ended 31 December 2019
<i>Cash flows from operating activities</i>			
Cash receipts from donors		2,007,795	1,529,675
Borrowings repaid from beneficiaries		7,036	25,420
<i>Total cash receipts from operations</i>		<u>2,014,831</u>	<u>1,555,095</u>
<i>Cash used in operating activity</i>			
Cash paid to and on behalf of employees		(474,351)	(490,258)
Cash used in project implementation		(931,185)	(892,000)
Cash paid to the State budget		(153,907)	(177,539)
Borrowings provided to beneficiaries		(30,190)	(43,747)
Other cash (payments)/receipts, net		(31,809)	(20,392)
Donations refunded to donors		(1,362)	-
<i>Total cash used in operations</i>		<u>(1,622,804)</u>	<u>(1,623,936)</u>
<i>Net cash from operating activities</i>		<u>392,027</u>	<u>(68,841)</u>
<i>Cash flows from investing activities</i>			
Acquisition of non-current assets		(32,193)	(24,726)
Cash inflow from sales of non-current assets		300	3,265
Movement in bank deposits		(10,000)	-
<i>Net cash used in investing activities</i>		<u>(41,893)</u>	<u>(21,461)</u>
Net increase/(decrease) in cash and bank balances		350,134	(90,302)
Cash and bank balances at the beginning of the year		143,770	234,072
Cash and bank balances at the end of the year		<u>493,904</u>	<u>143,770</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

# Notes to the financial statements

## 1 Nature of operations and general information

Armenian Caritas Benevolent NGO (the “Organization”) is a benevolent non-governmental organization based in the Republic of Armenia. The Organization has been registered according to the decree number 19/2-7 dated 23 May 1997 issued by the Colleague of the Ministry of Justice of the Republic of Armenia. The Organization was reregistered by the order number 2147 dated 24 December 1999 of the Minister of Justice of the Republic of Armenia. The main office of the Organization is located at 8 Sargsian Street, Gyumri, Republic of Armenia.

The Organization receives its funding from local and foreign charitable foundations and carries out charitable projects in a number of regions throughout the Republic of Armenia.

During 2020 the Organization implemented 74 projects (2019: 58), which include “Assistance to the children”, “Water and sanitation”, “Support to elderly”, “Health care dispensary”, “Migration and trafficking violence”, “Community development”, etc.

The Organization receives grants primarily from the following donors: Caritas Austria, Caritas Germany, Caritas Spain, Caritas Belgium, Caritas France, Bishops Conference of Italy, Renovabis, etc.

The average number of employees of the Organization during 2020 was 99 (2019: 99).

### *Business environment*

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The coronavirus has already had a significant impact on the global economy and major financial markets.

Continuous measures were introduced by the Government and the Central Bank of the Republic of Armenia to mitigate the impact of the coronavirus on the economy. These measures include, among others, subsidized lending to affected industries and individuals and payment holidays.

The Organization's management considers its current liquidity position to be sufficient for the sustainable functioning. The Organization monitors its liquidity position on regular basis and intends to use appropriate liquidity position instruments, if necessary.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

These events may have a further significant impact on the Organization's future operations and financial stability, the full consequences of which are currently difficult to predict. The future economic and political situation and its impact on the Organization's operations may differ from the management's current expectations.

These financial statements do not reflect the potential future impact of the above on the Organization's operations.

## 2 Basis of preparation

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption that the Organization operates on a going concern basis.

Currently, IFRSs do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRSs do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRSs, as detailed in the International Accounting Standards Board (“IASB”) *The Conceptual Framework for Financial Reporting*.

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost convention.

### 2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Organization’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Organization.

These financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

### 2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of incomes and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates and the original estimates and assumptions will be modified as appropriate in the year in which circumstances change.

### 2.5 Adoption of new and revised standards

In the current year the Organization has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020.

The nature and the effect of these changes are disclosed below.

#### **New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2020**

New standards and amendments described below and applied for the first time in 2020 did not have a material impact on the annual financial statements of the Organization:

- *Conceptual Framework for Financial Reporting*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7)*
- *COVID-19 Rent Related Concessions (Amendments to IFRS 16)*

#### **Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Organization**

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Organization.

Management does not anticipate a material impact on the Bank's financial statements from these Standards and Amendments, they are presented below.

- *Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)*
- *IFRS 17 Insurance contracts*
- *Proceeds before intended use (Amendments to IAS 16)*
- *References to the conceptual framework (Amendments to IFRS 3)*
- *Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
- *Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*

### 3 Significant accounting policies

#### 3.1 Foreign currencies

##### *Foreign currency transactions*

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 522.59 drams for 1 US dollar and 641.11 drams for 1 euro as of 31 December 2020 (31 December 2019: 479.70 drams for 1 US dollar, 537.26 drams for 1 euro).

Exchange differences arising on the settlement and retranslation of monetary items, are included in the result for the period.

#### 3.2 Property and equipment

Properties in the course of administrative purposes are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Organization's accounting policy.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the result for the period.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the result as incurred.

Depreciation is charged to the result for the year or is added to the cost of other asset on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings	- 20 years
Vehicles	- 5 years
Furniture, computers, office equipment	- 3-5 years

### 3.3 Financial instruments

#### *Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Organization becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

#### *Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Organization does not have any financial assets categorized as FVOCI

The classification is determined by both:

- the Organization's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in the result for the year are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. *[change as appropriate]* A summary of the Organization's financial assets by category is given in note [number].

#### *Classification and measurement of financial liabilities*

The Organization's financial liabilities include accounts payable. A summary of the Organization's financial liabilities by category is given in note 15.2.

#### *Accounts payable*

Accounts payable are stated at fair value and subsequently stated at amortized cost.

### 3.4 Cash and cash equivalents

Cash and bank balances comprise cash on hand, bank accounts and cash in transit.

### 3.5 Grants

Grants are not recognized until there is reasonable assurance that the Organization will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to the result on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Organization with no future related costs are recognized as income in the period in which they become receivable.

Receivables from donors arise when the Organization spends (incurs expenses) more than it receives from the donors and it is certain that the Organization will receive compensation from the donors for the expenses incurred.

Unused balance for grants arises when the Organization spends (incurs expenses) less than it receives from the donor and is returned when the donor does not allow it to be used for another project and requires it to be paid back and is included in "Grants related to income" caption of Statement of financial position.

### 3.6 Interest accrued

Interest accrued on deposits are credited to grants related to income, since this is either required by the donor or represents managements intend to use the funds for purpose defined by the donors.

### 3.7 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable result. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable results will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable result nor the accounting result.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable results will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3.8 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

- (a) wages, salaries and bonuses;
- (b) paid annual leaves and paid disability leaves;
- (c) social security contributions and other social payments

When employees render services to the Organization during the accounting period, the Organization recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Organization shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.
- (b) as an expense, unless the amount is included in the cost of an asset.

### *Paid absences*

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

- (a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.
- (b) in the case of non-accumulating paid absences, when the absences occur.

### *Bonuses*

The expected cost of bonus payments is recognized when and only when the Organization has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Organization has no realistic alternative but to make the payments.

## **3.9 Income recognition**

### *Income from grants*

Income from grants is recognized over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Organization with no future related costs are recognized in income or expenses in the period in which they become receivable.

## 4 Property and equipment

In thousand drams

	Land and buildings	Vehicles	Furniture, computers, equipment	Total
<i>Cost</i>				
as of 1 January 2019	1,614,291	138,575	276,244	2,029,110
Additions	-	-	24,726	24,726
Disposals	-	(10,954)	(1,606)	(12,560)
as of 31 December 2019	1,614,291	127,621	299,364	2,041,276
Additions	-	23,880	8,958	32,838
Disposals	-	(45,906)	(128,033)	(173,939)
as of 31 December 2020	1,614,291	105,595	180,289	1,900,175
<i>Accumulated depreciation</i>				
as of 1 January 2019	195,033	111,303	183,045	489,381
Charge for the year	79,758	10,022	40,628	130,408
Eliminated on disposal	-	(8,183)	(1,112)	(9,295)
as of 31 December 2019	274,791	113,142	222,561	610,494
Charge for the year	79,758	10,125	31,970	121,853
Eliminated on disposal	-	(39,429)	(75,550)	(114,979)
as of 31 December 2020	354,549	83,838	178,981	617,368
<i>Carrying amount</i>				
as of 31 December 2019	1,339,500	14,479	76,803	1,430,782
as of 31 December 2020	1,259,742	21,757	1,308	1,282,807

None of the Organization's property and equipment have been pledged as a security as of the reporting date.

Depreciation expense has been fully charged to administration expenses.

As of 31 December 2020 the cost of fully depreciated assets amounted to drams 365,187 thousand (2019: drams 223,488 thousand).

In 2020, the "Armenian Caritas" Charitable Foundation and the "Austrian Caritas" Organization founded the "Caritas-Aregak" charitable foundation, which received state registration on August 2020. Previously, the "Caritas-Aregak" Charitable Foundation was one of the projects of the Organization. The goal of the Project was to enable children and adolescents with multiple disabilities and their families living in Gyumri (Shirak Marz, Armenia) to integrate into society and be equally treated, while providing a model of social work with disability for other agencies and government in Armenia.

In 2020 property with a historical cost of drams 171,233 thousand was donated to "Caritas-Aregak" Charitable Foundation by the Organization

## 5 Borrowings provided

In thousand drams

	As of 31 December 2020	As of 31 December 2019
Balance at the beginning of year, gross	64,069	45,441
Borrowings provided within the scope of projects	29,790	44,048
Borrowings provided to employees	400	-
Borrowings repaid	(56,103)	(25,420)
Balance at the end of year, gross	38,156	64,069



Allowance for doubtful borrowings	(15,555)	(35,032)
Borrowings provided, net	<u>22,601</u>	<u>29,037</u>

Within the scope of the Migration and Development Innovative Fund, the Organization provides non-interest bearing borrowings to individuals for the development of small business and agriculture mainly in the cities of Yerevan and Gyumri. The maximum amount of the borrowing per contract is drams 2,500 thousand and the maturity period is maximum two years. Borrowings are repaid both during and at the end of the maturity period. As of 31 December 2020 the number of borrowers was 20 (as of 31 December 2019: 39).

The Organization has provided fully for all overdue borrowings because the historical experience is that receivables not collected in a due maturity date are generally not recoverable. In addition, when the Organization obtains an objective evidence that the borrowing is impaired but not overdue, the Organization provides fully for those borrowings.

According to management, the fair values of current borrowings equal to their carrying amounts.

Movement of the allowance for doubtful borrowings is presented below:

*In thousand drams*

	<u>2020</u>	<u>2019</u>
Balance at the beginning of year	35,032	38,066
Increase in the allowance during the year	-	5,810
Repaid during the year	(19,477)	(8,844)
Balance at the end of year	<u>15,555</u>	<u>35,032</u>

The list of doubtful borrowings is disclosed below:

In thousand drams

Project	Borrower name	Initial borrowing provided	Contract date	Maturity date	Amount of allowance	
					As of 31 December 2020	As of 31 December 2019
Migration and Development Innovative Fund	Karine Tatulyan	1,200	3/2/2011	12/2/2012	450	450
Migration and Development Innovative Fund	Armen Tadevosyan	1,200	3/2/2011	4/2/2012	1,200	1,200
Migration and Development Innovative Fund	Susanna Margaryan	1,200	5/26/2011	7/26/2012	816	816
Migration and Development Innovative Fund	Karapet Ghazaryan	2,400	12/24/2013	12/24/2014	280	280
Migration and Development Innovative Fund	Arsen Hovsepyan	2,000	8/2/2013	7/31/2014	2,000	2,000
Aramazd-3 Social Education Project	Hasmik Rafaelyan	989	10/10/2013	10/31/2016	-	318
Migration and Development Innovative Fund	Eghishe Movsisyan	1,200	3/7/2014	3/7/2015	400	400
Migration and Development Innovative Fund	Davit Hovsepyan	1,200	3/7/2014	3/7/2015	-	25
Migration and Development Innovative Fund	Gagik Karapetyan	1,660	6/6/2014	6/6/2015	270	340
Migration and Development Innovative Fund	Tsoghik Badoyan	200	7/16/2014	7/16/2015	-	200
Migration and Development Innovative Fund	Geteon Simonyan	200	7/16/2014	7/16/2015	-	200
Migration and Development Innovative Fund	Ani Darbinayn	200	7/16/2014	7/16/2015	-	200
Migration and Development Innovative Fund	Adam Madoyan	200	7/16/2014	7/16/2015	-	200
Own Capital	Father Rafayel Archbishop	8,158	8/29/2014	Indefinite	-	8,158
Aramazd-3 Social Education Project	Ashot Aghajanyan	1,120	2/9/2015	10/31/2016	-	829
Migration and Development Innovative Fund	Gurgen Petrosyan	2,000	12/26/2016	1/26/2018	1,329	1,329
Migration and Development Innovative Fund	Ashot Martirosyan	1,700	5/2/2017	5/2/2018	-	100
Migration and Development Innovative Fund	Rudik Osipov	2,500	10/19/2017	10/19/2018	1,900	2,000
Migration and Development Innovative Fund	Misha Poghosyan	2,120	11/7/2017	11/7/2018	-	160
Migration and Development Innovative Fund	Ararat Avalyan	2,500	10/17/2017	10/17/2018	2,500	2,500
Migration and Development Innovative Fund	Rouzanna Vardanyan	529	11/29/2017	11/29/2018	-	529
Migration and Development Innovative Fund	Harout Gaspar	2,500	11/3/2017	11/3/2018	2,500	2,500
Migration and Development Innovative Fund	Souren Hayrapetyan	2,120	12/14/2017	12/14/2018	-	1,148
Migration and Development Innovative Fund	Gevorg Demirchyan	2,500	11/10/2017	11/10/2018	-	1,353
Migration and Development Innovative Fund	Serine Aghakhani	2,125	10/19/2017	10/19/2018	1,825	2,125

In thousand drams

Project	Borrower name	Initial borrowing provided	Contract date	Maturity date	Amount of allowance	
					As of 31 December 2020	As of 31 December 2019
Migration and Development Innovative Fund	Lilit Manucharyan	2,121	12/12/2017	12/12/2018	-	981
Migration and Development Innovative Fund	Astghik Kurginyan	1,000	10/16/2017	10/16/2018	-	181
Migration and Development Innovative Fund	Hamestuhi Sasunyan	2,500	1/24/2018	12/13/2019	-	1,500
Migration and Development Innovative Fund	Misha Davtyan	1,530	8/3/2018	12/24/2019	85	510
Own Capital	Vardan Mouradyan	10,000	4/13/2018	12/13/2019	-	2,500
					15,555	35,032

## 6 Bank deposits

Bank name	Principal amount (in thousand drams)	Deposit date	Maturity date	Deposit rate (%)	Balance as of 31 December (in thousand drams)				Accrued interest (in thousand drams)	
					2020		2019		2020	2019
					Principal	Interest	Principal	Interest		
<i>Inecobank CJSC</i>										
Deposit 1	49,000	12/25/2018	3/25/2020	9.20%	-	-	49,000	4,582	-	4,582
Deposit 2	100,000	12/6/2018	3/6/2020	9.20%	-	-	100,000	9,830	-	9,830
Deposit 3	49,000	3/25/2020	6/25/2021	9.20%	49,000	8,318	-	-	8,318	-
Deposit 4	110,000	6/3/2020	6/6/2021	9.20%	110,000	3,470	-	-	3,470	-
					<u>159,000</u>	<u>11,788</u>	<u>149,000</u>	<u>14,412</u>	<u>11,788</u>	<u>14,412</u>

## 7 Cash and bank balances

In thousand drams

	As of 31 December 2020	As of 31 December 2019
Cash in hand	2,156	2,321
Bank accounts	490,455	140,884
Cash in transit	1,293	565
	<u>493,904</u>	<u>143,770</u>

## 8 Grants related to assets

In thousand drams

	2020	2019
Balance at the beginning of the year	1,430,782	1,539,729
Addition	686	-
Transferred from grants related to income (refer to note 10)	32,152	24,726
Disposal of related assets (refer to note 4)	(58,960)	(3,265)
Realized to income (refer to note 11)	(121,853)	(130,408)
Balance at the end of the year	<u>1,282,807</u>	<u>1,430,782</u>

## 9 Accounts payable

In thousand drams

	As of 31 December 2020	As of 31 December 2019
Employee benefits payable	4,502	3,854
	<u>4,502</u>	<u>3,854</u>

## 10 Grants related to income

In thousand drams

	2020	2019
Balance at the beginning of the year	339,141	409,783
Donation received in cash from donors	2,008,319	1,560,064
Bank deposit interest	11,788	14,412
Transferred to grants related to assets (refer to note 8)	(32,152)	(24,726)
Donations accrued/grants receivable from donors	47,217	(18,649)
Realized to income (refer to note 11)	(1,683,384)	(1,601,743)
Unused balance returned to donors	(1,362)	-
Balance at the end of the year	<u>689,567</u>	<u>339,141</u>

The details of the donations received during the year are presented below.

Donations received in cash for the Projects are follows:

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Assistance to the children	662,654	640,714
Migration and trafficking violence	376,457	347,106
Support to elderly	81,939	69,007
Water and sanitation	325,888	277,074
Community development	323,207	109,575
Health care dispensary	139,098	47,820
Other	89,659	50,384
	<u>1,998,902</u>	<u>1,541,680</u>
For administration expenses	<u>9,417</u>	<u>18,384</u>
	<u>2,008,319</u>	<u>1,560,064</u>

Sources of donations received from Donors for the years ended 31 December 2020 and 31 December 2019 are detailed below:

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Caritas Austria	37,643	399,902
Caritas Germany	229,245	253,760
Renovabis	171,463	130,503
Caritas France	109,331	37,481
Caritas Spain	87,560	90,646
CNEWA	31,293	110,254
BC Italy	18,824	15,445
Kinder Missionswerk	22,029	53,931
Caritas Belgium	19,860	59,143
Medicor	107,485	31,920
JT International Luxembourg	16,428	9,127
CRS	106,322	12,380
Cardinal Frings	-	14,428
Caritas Europe	8,998	3,990
Caritas Italy	36,759	7,633
Austrian Red Cross	276,460	79,838
US BC	53,566	38,080
UNISEF	7,425	19,654
Ministry of Diaspora and local contribution	52,208	25,473
Other	615,419	166,476
	<u>2,008,319</u>	<u>1,560,064</u>

## 11 Income from grants

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Income from grants related to assets (refer to note 8)	121,853	130,408
Income from grants related to income (refer to note 10)	1,683,384	1,601,743
	<u>1,805,237</u>	<u>1,732,151</u>

## 12 Program expenses

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Assistance to the children	534,122	633,319
Migration and trafficking violence	307,525	343,100
Support to elderly	64,742	68,210
Water and sanitation	258,968	108,310
Community development	258,968	273,876
Health care dispensary	113,299	47,268
Other	80,928	67,974
	<u>1,618,550</u>	<u>1,542,057</u>

The Organization has incurred expenses at the amount of drams 10,518 thousand in the scope of the Project ODSS (2019: drams 13,002 thousand).

## 13 Administrative expenses

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation expense	121,853	130,408
Salaries and employee benefits	23,350	26,679
Office expenses	4,117	12,133
Audit and consulting	9,386	7,597
Travel and accommodation	-	6,088
Bank charges	-	473
Other	690	786
	<u>159,396</u>	<u>184,164</u>

## 14 Income tax expense

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Current tax	-	3,096
	-	3,096

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2020	Effective tax rate (%)	Year ended 31 December 2019	Effective tax rate (%)
Result before taxation (under IFRSs)	-		3,096	
Tax calculated at a tax rate of 18% (2019: 20%)	-	-	619	20.00
(Non-taxable)/non-deductible items, net	-	-	2,477	80.00
Income tax expense/ (recovery)	-	-	3,096	100.00

## 15 Financial instruments

### 15.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability and equity instrument are disclosed in note 3.3.

### 15.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

#### *Financial assets*

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Bank deposits	170,788	163,412
Borrowings provided	22,601	29,037
Cash and bank balances	493,904	143,770
Total financial assets	687,293	336,219

#### *Financial liabilities*

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Accounts payable	4,502	3,854
Total financial liabilities	4,502	3,854



## 16 Financial risk management

The Organization does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Organization is exposed are described below.

### Financial risk factors

#### a) Market risk

The Organization is not exposed to foreign exchange risk, since as of the reporting date it has no significant financial liabilities denominated in foreign currencies.

#### b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Organization. The effect of this risk for the Organization arises from different financial instruments, such as accounts receivable and term deposits. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2020	As of 31 December 2019
Financial assets at carrying amounts		
Term deposits	170,788	163,412
Borrowings provided	22,601	29,037
Bank balances	491,748	141,449
	<u>685,137</u>	<u>333,898</u>

The credit risk for cash and cash equivalents (including bank deposits) is considered negligible, since the counterparties are reputable banks.

The Organization has created an allowance for doubtful borrowings provided at the amount of drams 15,555 thousand as of 31 December 2020 and drams 35,032 thousand as of 31 December 2019. Management believes that the carrying amount of the borrowings are fully recoverable.

## 17 Contingencies

### 17.1 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Organization does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Organization property or relating to the Organization operations. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Organization's operations and financial position.

### 17.2 Taxes

The taxation system in Armenia is characterized by frequently changing legislation, which sometimes needs interpretations. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose fines and penalties.

On 1 January 2020, the chapter on the regulation of transfer pricing of the Tax Code of the Republic of Armenia came into force, which defines the peculiarities of transactions between related parties, defines the procedure for considering those transactions as controlled by the tax authority, as well as the procedure for submitting notification and documentation. The purpose of the mentioned regulations is to

determine whether the financial performance of transactions between related parties is consistent with the arm's length principle, and in the event of inconsistency, the adjustment procedure for tax base computation purpose is established. The application of these regulations is subject to separate inspection by the tax authority, and the absence of required documentation or improper submission can result in significant consequences.

The mentioned chapter of the Tax Code contains many uncertainties, and similar regulations have not been applied in the Republic of Armenia in the past. As a result, there is no sufficient experience in interpreting and applying such regulations.

## 18 Subsequent events

As explained in note 4, "Caritas-Aregak" Charitable Foundation has been separated from the Organization. In 2021 cash balances of drams 53,802 thousand available on the Organization's bank accounts were transferred to the Foundation.

## 19 Related parties

### 19.1 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in payroll and employee benefits.

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and bonuses	16,917	17,967
	<u>16,917</u>	<u>17,967</u>